

University of Colombo School of Computing - 2015

The audit of financial statements of the University of Colombo School of Computing for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 23 of University of Colombo School of Computing Ordinance No. 01 of 2002 enacted in terms of Sub-section 107(5) and Section 18 of the Universities Act, No. 16 of 1978. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 108(1) of the Universities Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Section 111 of the Universities Act, No. 16 of 1978 gives discretionary powers to the Auditor General to determine the scope and the extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the University of Colombo School of Computing as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Even though the assets costing Rs.207,525,093 had been fully depreciated those were being in use further as the useful life of non-current assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

2.2.2 Unexplained Differences

A difference amounting to Rs.75,821,489 was observed between the value of fixed assets shown in the financial statements and the value shown in the Register of Fixed Assets.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Even though a sum of Rs.1,747,525 was receivable in respect of services rendered to the Department of Examinations, the University Grants Commission and the National Science Foundation four years ago, adequate course of action had not been taken by the Institute to recover these balances.
- (b) Loan balances totalling Rs.217,584 remained recoverable from three persons who had placed the University Provident Fund as surety in obtaining the Distress Loans those had not been recovered despite the elapse of periods ranging from 16 to 22 years.
- (c) Legal action in terms of the provisions in the Universities Act and Establishments Code for Higher Educational Institutions and in accordance with the agreements had not been taken for the recovery of the balance of Rs.6,057,990 remaining recoverable from three lecturers due to the breach of agreement bonds over periods from 5 to 12 years.

2.4 Non – compliance with Laws , Rules , Regulations and Management Decisions

The following non compliances were observed.

**Reference to Laws, Rules,
Regulations and Management
Decisions**

Non – compliance

- | Reference to Laws, Rules,
Regulations and Management
Decisions | Non – compliance |
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| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
Financial Regulation 371 | Advances totalling Rs.8,738,543 had been granted to 50 officers in the non-staff grade. |
| (b) Public Finance Circular No.03/2015 of 14 July 2015 | Advances ranging from Rs.104,150 to Rs.325,750 exceeding the maximum limit of Rs.100,000 for granting advances had been granted by the Institution in 31 instances. |
| (c) Public Enterprises Circular No.PED/25 of 29 July 2004 | An investment of Rs.561,816,857 had been made without obtaining the Treasury approval. |
| (d) Establishments Code for the University Grants Commission and Higher Educational Institutions
Sections 3.1 and 3.2 of Chapter XX | Salaries and allowances amounting to Rs.61,951,795 had been paid in the year under review without recording the attendance and leave of 39 academic officers of the Institute. |
| (e) Treasury Circular No.842 of 19 December 1978 and University Grants Commission Circular No.49 of 13 November 1979 | A Register of Fixed Assets had not been maintained in respect of the non-current assets valued at Rs.5,269,536 included in the final accounts of projects. |

2.5 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Even though the approval of the Cabinet of Ministers with the recommendations of the University Grants Commission and the Minister of Higher Education should be obtained before the establishment of a company in the Institution, a Limited by Guarantee Company named Theekshana Company had been registered under the Companies Act in the year 2006 without such approval.
- (b) Out of the income earned from external courses conducted by the Institution, Honorarium amounting to Rs.2,102,100 had been paid in the year under review to the academic and non-academic staff without a proper approval.
- (c) Even though all income earned by the Institution should be credited to a Fund in favour of the Institution in terms of the Universities Act, contrary to that, 06 Funds had been maintained in various names by the Institution without proper approval. Further, a sum of

Rs.39,349,567 out of the income earned by the Institution and a sum of Rs.40,332,985 out of the money received for foreign projects had been credited to the said Funds.

- (d) Even though approval of the University Grants Commission should be obtained for the courses to be newly commenced by the Institution in terms of Section 3 of the School of Computing Ordinance, 5 courses of Master of Science, Doctor of Philosophy and Master of Philosophy had been conducted by the Institution without the approval of the University Grants Commission.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result for the year ended 31 December 2015 had been a surplus of Rs.7, 632,010 as compared with the corresponding surplus of Rs. 30,988,224 for the preceding year, thus resulting in a deterioration of Rs. 23,356,214 in the financial result of the year under review as compared with the preceding year. The increase of employee administration expenses by Rs.27,058,395 and the decrease in course income by Rs.29,274,834 despite the increase in Government grants by Rs.28,584,000 had been the main reason for the above deterioration.

In analyzing the financial results of the year under review and the four preceding years, the surplus had decreased in the year under review as compared with the 04 preceding years. However, in considering the employee remuneration, tax paid to the Government and depreciation for non-current assets, the contribution of the year under review had increased by 8 per cent as compared with the preceding year.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) A transport allowance can be paid to the Guest Lecturers according to the distance based on the rates stipulated in the Public Administration Circular No.9/2010 followed by the University Grants Commission. Contrary to that, transport allowances totalling Rs.517,000 had been paid to 38 Lecturers at a fixed rate of Rs.1000 per day.
- (b) A Medical Insurance Scheme was being operated by the Institution without the approval of the University Grants Commission, the Ministry of Higher Education and the General Treasury while a sum of Rs.2,159,349 out of the income earned from courses during the year under review and Rs.1,014,208 out of the surplus money of projects had been transferred to the said Fund. Medical bills amounting to Rs.3,137,921 had been reimbursed from this Fund during the year.
- (c) A sum of Rs.3,204,717 out of the income earned from courses and foreign funds amounting to Rs.1,014,208 received for projects had been transferred to a Welfare Fund operated by utilizing funds of the Staff of the Institution. However, approval of the

University Grants Commission, the Ministry of Higher Education and the General Treasury had not been obtained for the above transfer of funds.

4.2 Operating Activities

The following observations are made.

- (a) The balance of Professor V.K.Samaranayake Fund stated under Funds in the financial statements amounted to Rs.14,306,550 while this Fund had not been utilized for the intended purposes since the year 2012.
- (b) Advances had been granted without preparing an expenditure estimate properly forecasting the expenditure and as such advances totalling Rs.427,250 had been granted in 22 instances for the actual requirement of expenses amounting to Rs.160,112.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) The Theekshana Company had been established as a separate legal unit, while its administration activities were being carried out at the School of Computing and the staff of the Institute and the staff of the Company were accommodated in the same Section, and the physical resources were commonly used. As a result, the orders and income of the computer system designing and the computer consultation could not be specifically identified.
- (b) Service of two Software Engineers who served on contract basis in the Institution had been terminated on 31 January 2015 and those two Engineers had been recruited to the Theekshana Company with effect from 01 February 2015.
- (c) As the main business purpose of the Theekshana Company was similar to the services rendered by the School of Computing, it was observed that the Theekshana Company is a competitive business of the School of Computing.
- (d) Accounting work of the Theekshana Company had been supervised by the Senior Assistant Bursar of the School of Computing and a sum of Rs.251,000 had been paid to the Bursar in this connection during the year of accounts.
- (e) In terms of the Nineteenth Amendment to the Constitution, the audit of Government Companies in which the Government and the Affiliated Institutions of the Government hold more than 51 per cent ownership should be assigned to the Auditor General. Nevertheless, the external audit of the Theekshana Company included in the consolidated financial statements in which the ownership of 100 per cent is held by the School of Computing had been assigned to a private audit firm without the approval of the Auditor General.
- (f) The Theekshana Company had adopted a policy of paying more than 80 per cent of the value of orders received from its clients as allowances to the staff including its Chief

Executive Officer, thus most probably the total expenditure with other ancillary expenses would exceed the income. As such, the financial result of the year had been a surplus of Rs.4,318 indicating a marginal value despite a service income of Rs.5,005,000 received during the year 2015.

4.4 Underutilization of Funds

The balance in the Current Account maintained in respect of the foreign funds received for projects amounted to Rs.65 million as at the end of the year under review, and the balances of that Account of the years 2013 and 2014 amounted to Rs.44 million and Rs.51 million respectively. Accordingly, it was observed that the relevant money was not being properly utilized for the intended purposes and action had not been taken to earn an income by making short term investments from excess money.

4.5 Staff Administration

Action had not been taken to recruit employees for 92 vacancies existing in the approved staff of the Institution while 66 employees had been deployed further on contract basis extraneous to the approved staff by granting extensions of service.

5. Accountability and Good Governance

5.1 Internal Audit

Despite the availability of a strong Internal Audit Division of the University of Colombo, with two Senior Internal Audit Assistants which carries out the internal audits of all Institutions affiliated to the University of Colombo, the internal audit of the School of Computing only had been assigned to a private audit firm and a sum of Rs.350,000 had been paid as annual internal audit fees during the year under review.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Director of the Institute from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
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(a) Fixed Assets Control	Lack of proper inventorying and revaluation of assets and non-maintenance of Inventories
(b) Advance Control	Granting advances to non-staff grade officers, granting advances exceeding the limit, granting advances without identifying the requirement

- (c) Staff Administration Failure to take action to revise the approved staff and to fill the vacancies according to the staff requirement
- (d) Commencement of new Courses Failure to obtain the required approval